UPDATE ON THE DIGITAL FINANCIAL SERVICES (DFS) AWARENESS GUIDELINES BY THE CONSUMER PROTECTION DEPARTMENT, CENTRAL BANK OF NIGERIA.

Contributors: Rashida Monguno, Director of Consumer Protection Department, Oludamola, Atanda, Head of Market Conduct Division.

Introduction:

The COVID-19 pandemic was a major shock to the global economy. Its effects challenged the norms of business transaction, banking operations and the payment infrastructures of developed, emerging, and developing economies. Although the entire world suffered greatly from its drastic impact, it’s also taught world leaders to think-out-side box and then challenge the status quo of doing business, especially in the financial ecosystem.

Countries were forced to adjust and re-adjust their approaches to banking and the payment system. This shift in policy decision introduced a more drastic approach to embrace alternative means to carryout business operations, banking, and financial services settlements amongst others. The eventual frontiers of the pandemic discouraged the use of face-to-face business transactions, however it paved way for opportunities for contactless payments, online transactions, and the emergence of arrays of Digital Financial Products and Services.

The advent of Digital Financial Services (DFS) and Products and the prevailing trauma from the pandemic compelled consumers to accept and adopt to the novel ways of banking. This adoption also forced DFS users to embrace the inherent risk and opportunities that comes with the product. Accordingly, online fraud was accounted as one of the major risks occasioned by the use of DFS during the pandemic. The Consultative Group to Assist the Poor (CGAP) stated that DFS have introduced several new consumer risks, however, some of these risks are outgrowing technology progress and DFS adoption. Its report on the “Evolution of the Nature and Scale DFS Consumer Risk”: A Review of Evidence (2022); accounted for the global increase of 83% on sharing of fraudulent mobile apps from 2019 to 2021.

In Nigeria, data shows that the total number of frauds attempts as at Q3 (January to September) has grown by 186% from 2019 to 2020, while fraud attempts via mobile channels showed a 330% increase year-over-year (YoY), while attempts via web and Point of Sale (POS) channels saw a 173% and 215% increase YoY (NIBSS.2021)

Consequently, these emerging challenges informed most jurisdictions, Central Banks, and Financial Services Providers (FSPs) to embark on implementing policies that would drive financial consumer awareness and literacy programmes, consumer protection and the optimization cyber security measures. One of the benefits of Consumer Financial Literacy is the criticality to the promotion of consumer confidence, greater financial inclusion, financial system stability and a sound financial system.
What Are Digital Financial Services (DFS)

Digital financial services (DFS) can be defined as financial operations using digital technology, including electronic money, mobile financial services, online financial services, i-teller, and branchless banking, whether through bank or non-bank institutions. DFS can encompass various monetary transactions such as depositing, withdrawing, sending, and receiving money, as well as other financial products and services including payment, credit, saving, pensions, and insurance. DFS can also include non-transactional services, such as viewing personal financial information through digital devices (G20/OECD INFE, 2017).

The International Telecommunication Union defined Digital Financial Services (DFS) as a broad range of financial services accessed and delivered through digital channels, including payments, credit, savings, remittances, and insurance. – Digital channels refer to the internet, mobile phones, ATMs, POS terminals etc.

Moreso, the Alliance for Financial Inclusion (AFI) stated that Digital Financial Services (DFS) comprises a broad range of financial services accessed and delivered through digital channels, including payments, credit, savings, remittances, and insurance. It also includes mobile financial services.

Accordingly, the Innovation for Poverty Action (IPA) in its survey entitled: “Nigeria Consumer Protection in Digital Finance Survey”. described Digital Finance in Nigeria to include a mix of bank and mobile money-based products, as well as a growing FinTech market focused primarily on payments and credit products.

This innovative products and services known as DFS, enables businesses to adopt to the new normal, fight existing and emerging competition and meet up regulatory requirements in a more pragmatic approach.

Benefits of Digital Financial Services to the Nigeria Economy

Regardless of the inherent risk associated with the use of DFS products and services, the following are some its benefits to the financial ecosystem.

- The transition from cash-based services has also allowed the creation of savings plans and credit profiles for previously unbanked customers, opening an ecosystem of related services. (USAID.2019).

- Moreso, a strong DFS ecosystem would promote universal financial inclusion, which in Nigeria is also largely reliant on the stability and integrity of the National Payment System. The strength of this ecosystem is highly dependent on several critical components of Nigeria’s enabling environment.

- The use of digital channels for retail payment collection provides an opportunity to reach largely rural, unbanked populations at reduced cost, which has the potential to increase energy access (USAID.2019).

Challenges Facing the Usage of DFS in Nigeria

Despite the benefits derived from the use of DFS, consumers are still faced with some the key challenges/issues such as:

i. A significant proportion of the Nigerian population (90%) has little or no knowledge of alternative means of accessing financial services, including the use of mobile money, and
despite having fairly good mobile network coverage in some parts of the country and high mobile penetration (USAID. 2019).

ii. The existing low mobile money awareness has led to low mobile money uptake in Nigeria, as compared to other countries in sub-Saharan Africa.

iii. Exorbitant, extra, and unclear charges by FSPs.

iv. Unauthorized transactions on customer’s account.

v. Phishing by phone or SMS.

Hence the need for a Digital Financial Services (DFS) Awareness Guidelines to curb these challenges.

**Nigeria’s Perspective to Digital Financial Services with Focus on Consumer Protection**

The launch of the National Financial Inclusion Strategy (NFIS) on the 23rd of October 2012 was a major milestone aimed to reduce the financial exclusion rate in Nigeria from 46.3 % in 2010 to 20 % in 2020. One of its top priorities is to promote Digital Financial Services (DFS) to unlock highly potential models.

In 2020 the Bank commenced the development of a Digital Financial Services Awareness Guidelines for the Industry in collaboration with the Innovation for Poverty Action (IPA).

The policy development approach includes the conduct jurisdictional desk review to assess and address consumer experiences and factors contributing to their (in)actions across the full range of Digital Financial Services’ (including digital transfers, payments, stored value, savings, insurance, and credit) channels (such as mobile phones and ATMs), and financial service providers, including mobile network operators (MNOs or “Telcos”), banks, nonbank financial institutions, e-money issuers, retailers, post offices, and others. It uses “customer” and “user” interchangeably; “consumer” also includes potential users.

The Bank assessed various policies, guidelines, and relevant literatures from several countries in following categories

i. DFS in the context of Nigeria

ii. Developing countries: Kenya, Egypt, and South Africa

iii. Emerging countries: China, Japan, Malaysia, and Hong Kong

iv. Advanced countries: Germany, USA, Canada, and Sweden

The findings also suggest that consumers’ experience - or even perception - of these problems contributes to their taking various steps to “self-protect” from limiting DFS uptake and use to dropping out of the market altogether. Fears and negative experiences may also be affecting the cross-sale of more advanced or higher-margin products, such as credit, savings, or premium-paid insurance.

Low-income consumers stand to benefit greatly from more accessible and affordable Digital Financial Services (DFS) offerings. Indeed, customers value and benefit from many basic DFS. However, many users are not only new to both formal finance and technology, but they also live precarious financial lives that allow little room for error. **Enabling users to understand and mitigate risks and minimize potential losses when using these new products and services will be critical for DFS to meet users’ expectations and needs and, in turn, achieve sustained financial inclusion.**
Mitigation of customer fears/risks is also important for financial service providers (FSPs) and the broader DFS ecosystem. This has not proven easy: approximately one-third of registered mobile money users nationwide are active. Moreover, in some markets, use of over the counter (OTC) services dominates even where users can register for mobile money wallets which offer more value-added features and services.

This desk review explored consumer risk in digital finance, through the lens of lower-income and less-experienced consumers, by addressing three related questions:

1. What risks do consumers and customers perceive and experience when using DFS?
2. What are the consequences of those risks for consumers, providers, and financial inclusion?
3. How can those risks be addressed?

It also explored available evidence on DFS consumers’ risk perceptions and experiences, focusing on risks that can cause financial loss or other harm. Its goal is to advance responsible digital finance by helping the diverse industry actors engaged in DFS’ delivery to better understand which problems are most important from the consumer perspective and motivating them to strengthen risk mitigation practices.

The analysis identified seven key consumer risk areas, namely:

1. Inability to transact due to network/service downtime
2. Insufficient agent liquidity or float, which also affects ability to transact
3. User interfaces that many find complex and confusing
4. Poor customer recourse
5. Non-transparent fees and other terms
6. Fraud that targets customers
7. Inadequate data privacy and protection

Of the seven key areas of concern identified among DFS customers, some - such as fraud - present a direct risk that can result in financial loss or other harm. Other concerns are less direct, as they create conditions that could result in loss or other harm. Network downtime, for example, can cause customers to leave money with agents to complete a transaction when the network is back up, exposing customers to possible fraud if the agent instead keeps the money.

Five Priorities for Industry to Identify, Test, and Scale Solutions

The diverse consumer-side evidence reviewed strongly suggests that providers can and should take action to improve the safety, reliability, and performance of DFS products, channels, and systems for their customers. Doing so may not only help reduce barriers many people face in taking up and transacting more intensively, but it may also be a precondition for mass uptake of the higher-margin services, such as credit, that are central to the longer-term business case for many providers.

Leadership by DFS providers and other industry actors is most needed and timely in five priority areas:
1. Improve service reliability and robustness
2. Make the customer interface more user-friendly
3. Strengthen agent quality, management, and liquidity
4. Combat customer-affecting fraud
5. Improve handling of complaints, queries, and redress

**Promote DFS Financial Literacy at the Grassroot**

Part of the mandate of the Consumer Protection Department (CPD) is to engender consumer confidence in the financial system by promoting financial literacy and consumer education. The Department developed financial literacy contents covering key knowledge areas such as:

1. Consumer Rights and Responsibilities;
2. How to Lodge a Complaint;
3. Frequency Asked Questions on the Guide to Charges by Banks, Other Financial and Non-Bank Financial Institutions;
4. Non-interest Financial Institutions;
5. Sending Money & Making Payments;
6. The Nigeria Financial Environment; and
7. Fraud & Scams

Owing to the need the address the challenges of lack of awareness on DFS the Bank implements periodic nation-wide sensitization programme aimed at reaching underserved, unbanked and grassroots consumers of financial services.

To achieve wider reach at low cost and increase efficiency the Department developed an on-line learning platform called the SabiMONI Financial Literacy eLearning portal to leverage mobile/smart phone savvy users’ population.


To address the challenges consumer experience in relation to extra charges by FSPs to complete a transaction and unexpected or unclear charges amongst others, the Department implements the “Guide to Bank Charges” (GBC) to ensure that FSPs comply with the extant regulation to enhance market conduct, transparency, and disclosure.

The Consumer Protection Regulation (CPR) provide minimum standards required of Institutions under the regulatory purview of the Bank on fair treatment of consumers, disclosure and transparency, business conduct, complaints handling and redress to protect the rights of consumers and to hold the institutions accountable. This priority policy documents forms basis for a pragmatic approach to ensure compliance to consumer protection on DFS by addressing four key principle which includes Fair Treatment of Consumers, Disclosure and Transparency, Responsible Business Conduct and Compliant Handling and Redress.
Development of Exposure Draft Digital Financial Services (DFS) Awareness Guidelines:

The Central Bank of Nigeria has developed the Digital Financial Services Awareness Guidelines to address gaps in consumer knowledge and practices with Digital financial Services (DFS). DFS have the potential to expand access to financial services for the Nigerian population and spur innovation in the financial services industry. The Guidelines provides for a set of principles and expectations for Financial Service Providers to integrate in the provision of DFS to ensure consumer understanding, good treatment, and positive outcomes.

The policy development methodology includes:

i. Established an Interdepartmental Committee and Project Team within the Bank that articulated evidence-based objectives to be achieved by the Guideline;

ii. Engaged a verifiable consultant that conjointly supported the Bank on the development of the required project work plan, identified and engaged key stakeholders and provided technical support;

iii. Conducted jurisdictional desk review in the context of DFS in Nigeria, developing, emerging and advanced economies;

iv. Administered a questionnaire or survey to key stakeholders within Nigeria to obtain primary data’s that would inform the process of the policy development;

v. Carried out critical analysis of the consolidated literature review and findings from the survey and developed key policy recommendations;

vi. Developed over aching DFS principles that would form basic standards and requirements for the promotion of DFS in the Nigeria financial industry;

vii. Developed and ensure an industry-wide review of the exposure draft DFS Awareness Guideline; and

viii. Consolidate the recommendations made by industry which is aimed at developing a holistic DFS Awareness Guideline that would meet international standards.

The provisions of this Guidelines shall apply to institutions providing DFS including the following: Deposit Money banks, Merchant banks, Other Financial Institutions, Payment Service Banks, and Other Payment Service Institutions as licensed by the CBN.

The Objectives of the Guidelines Include the Following:

i. To set Digital Financial Literacy (DFL) standards for Digital Financial Services Providers (DFSP).

ii. To align product development, promotion, and consumer awareness to DFS amongst DFSP

iii. To enhance transparency and proper disclosure on DFS.

iv. To provide for the development of Financial Literacy and Consumer Education materials on DFS.

v. To ensure evidence driven DFL approach.
vi. Integrate DFL in existing financial education programmes.

vii. To drive targeted DFL approach to the underserved population.

**DFS Awareness Principles**

Digital Financial Services providers are required to comply with the following six (6) principles:

i. **Promote DFS Awareness and Education**

ii. **Disclosure, Transparency, and User Privacy upon Service Adoption.**

iii. **Product Usability and Market Testing**

iv. **Fraud Prevention and Risk Management**

v. **Awareness and Access to Redress and Complaints Handling**

vi. **Monitoring and Evaluation**

**I. Promote DFS Awareness and Education**

DFS providers shall provide information that will enable consumers differentiate DFS products from conventional banking products and services, develop and deliver educational materials to prospective and existing customers through basic channels such as Short Message Service (SMS), Unstructured Supplementary Service Data (USSD) and at agent locations. In addition to App, web, and social media platforms, ensure ease of access to information on all product offerings to enable consumers make informed decisions and provide information on products in simple English and local languages.

**II. Disclosure, Transparency, and User Privacy upon Service Adoption.**

DFS providers shall amongst others disclose all terms, conditions, fees, and other associated charges on product offerings prior to enrollment, ensure integration of data privacy and protection standards into internal policies and conduct evidence-based awareness campaigns to sensitize consumers on how to protect their assets and sensitive details.

**III. Product Usability and Market Testing**

DFS providers shall ensure that products deployed are suitable for the target customers, ensure test product usability with users and modify as necessary to reduce transaction errors and provide consumers with reliable and easily accessible channels to enable them obtain support services.

**IV. Fraud Prevention and Risk Management**

DFS providers shall provide fraud prevention messages and tips for consumers using both audio and virtual modes of communication in local languages and monitor fraud reports to identify emerging fraud issues and sensitize their customers on how they can protect their assets.
V. Awareness and Access to Redress and Complaints Handling

DFS providers shall disclose information on consumer complaints channels, resolutions, and Service Level Agreements (SLAs) in product enrollment materials and ensure periodic training of agents and complaints handling staff.

VI. Monitoring and Evaluation

DFS providers shall put in place strategies to assess their policies on raising consumer awareness and product usage; develop indicators and performance measures to assess changes in awareness and usage; forward their strategies and performance measures to the Director of Consumer Protection, CBN bi-annually for review amongst others.

Expected results of DFS Awareness Guidelines:

The development of the DFS Awareness and its expected benefits is aimed at re-engineering the approaches of FSPs in implementing and adopting to the emerging risk and innovative trend of Fintech’s and consumer preferences in the Financial Ecosystem.

Part of the Mid and long-term outcome of the Guidelines includes:

- To ensure that adherence to the Guideline form part of the Bank’s Consumer Protection Compliance Examination to strengthen the Market Conduct Supervision and compliance regime of FSPs on DFS.
- Be aligned with the ongoing Development of the National Fintech Strategy aimed at enhancing awareness and promotion of DFS at a more strategic level and implementation.
- Be part of all ongoing Financial Literacy, Consumer Education and Protection programmes with emphasis on developing knowledge and usage capabilities on DFS at the grassroots level.
References:


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